

**AR50**

**MERLAND EXPLORATIONS LIMITED**

**Annual Report 1974**







BANTRY GAS PLANT, BROOKS, ALBERTA



# MERLAND EXPLORATIONS LIMITED

AND SUBSIDIARIES

## DIRECTORS' REPORT

TO THE SHAREHOLDERS:

Merland has achieved remarkable growth during the past three years and has matured as a junior oil and gas exploration and production company. It holds major interests in 445 gas and 8 oil wells located mainly in S.E. Alberta. By the end of 1975, the Company is expected to have the capability to produce, on a sustained basis, 35 million cubic feet of gas per day, for its own account. Company lands offer good prospects for further gas and oil exploration and development.

An orderly transfer of the Company's Executive Office from Toronto to Calgary has taken place and the major operating subsidiaries and divisions have been wound up and consolidated into the parent company. All non-petroleum activities have now been phased out.

1974 capital expenditures of \$5,756,000 were mainly devoted to the expansion of Company operated production facilities at Bantry and Medicine Hat, Alberta, and Horsham, Saskatchewan. Material shortages, drilling and production cost increases and high bank interest charges combined to force the deferment of a number of drilling programs which have now become projects for 1975. In spite of these difficulties in 1974, the Company participated in the drilling of 86 wells and achieved a daily gas production capability of 30 million cubic feet of gas by year end.

In September, 1974, leases and interests of Arrow-Can Natural Gas Ltd. and Silver Christal Natural Gas & Minerals Ltd. comprising 1½ townships adjacent to Merland's Conlac (Medicine Hat) properties, were purchased at a cost of \$1,650,000. Included with the acquisition were 95 operating gas wells, and related pipeline and compression facilities. A 20 well development drilling program is now underway to double the Company's share of production to 6 million cubic feet per day from these properties.

While recent actions by provincial and federal governments have tended to clarify the

current division of royalties and taxes, there is still great uncertainty as to future government policies. This makes forecasting extremely difficult for the industry and severely restricts the traditional sources of equity and long term debt capital. Like most independent companies, Merland relies upon bank financing and cash flow to support planned expansion. The Company has established adequate lines of credit with its bankers for 1975.

Working capital from operations in 1974 was \$582,328. In 1975 revenue is expected to increase substantially due to higher prices for natural gas expected November 1, 1975 and new production from a major development program on company holdings. Income from oil properties should show dramatic improvement in 1975 as oil discoveries in the Taber area are developed and production increases are obtained from the Red Coulee waterflood. A virtual doubling of revenues can be expected in 1976 as a result of anticipated higher prices and expanded production. Capital expenditures to obtain these increases in production and revenue are presently forecast at approximately \$4,000,000 in each of 1975 and 1976.

Effective May 16, 1975 your directors accepted the resignation of John A. Cameron as President and a director of the Company and appointed Peter M. Oley as President and Chief Executive Officer. Mr. Cameron has played a major role in directing the Company's growth into a viable, soundly financed oil and gas exploration and production company. Mr. Cameron's wish to retire from Merland, a public company, arose from his desire to devote more time to private interests. The directors wish to express their appreciation to Mr. Cameron and to wish him good health and success in the future.

Mr. Oley joined Merland in 1969 and has directed its highly successful growth in oil and gas exploration and production since that time. He has most recently been Vice President and General Manager of Merland and is a director of the Company.



# GENERAL SUMMARY OF OPERATIONS

<b>Financial</b>	<b>1974</b>	<b>1973</b>	<b>1972</b>
Gross Revenue (1)	\$1,301,000	\$ 249,000	\$ 26,000
Cash Flow	582,000	185,000	212,000
Cash Flow per share	.125	.044	.051
Earnings (Loss) per share	.023	(.013)	.020
Exploration and development expenditures (2)	5,756,000	7,039,000	324,000
Note: (1) Before royalties — oil and gas			
(2) Including acquisitions			

## Operating

Natural Gas Sales — billion cubic feet*	5.5	1.6	0.1
— million cubic feet per day	15.1	4.4	0.3
Oil Production — barrels*	6,315	430	—

\*Before royalties

## General

Estimated Gross Reserves, Proven and Probable as at April 30, 1975	GAS 300 Billion Cubic Feet OIL 1,000,000 Barrels
--	---

<b>Acreage</b> as at April 30, 1975	<b>Gross Acres</b>	<b>Net Acres</b>
Alberta	481,337	163,004
Saskatchewan	15,638	10,725
Manitoba	103,000	62,624
Total	599,975	236,353

## Gross Wells as at April 30, 1975

Gas	445
Oil	8
Total	453

# ALBERTA

BRITISH COLUMBIA

SASKATCHEWAN

North Big Bend

Westlock

EDMONTON □

Holden

Viking

Jarrow

Halkirk

Hamilton Lake

Kindersley

CALGARY □

Bantry

Hilda

North  
Medicine  
Hat

Horsham

Alderson

Conlac-  
Vale

Taber

MEDICINE HAT □

LETHBRIDGE □

Red Coulee

U.S.A.

## LEGEND:

Company Operated:



Oil Field



1975 Gas Project



Gas Compressor Station



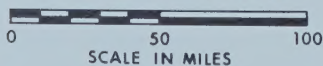
Exploratory Areas

Non-Operated:



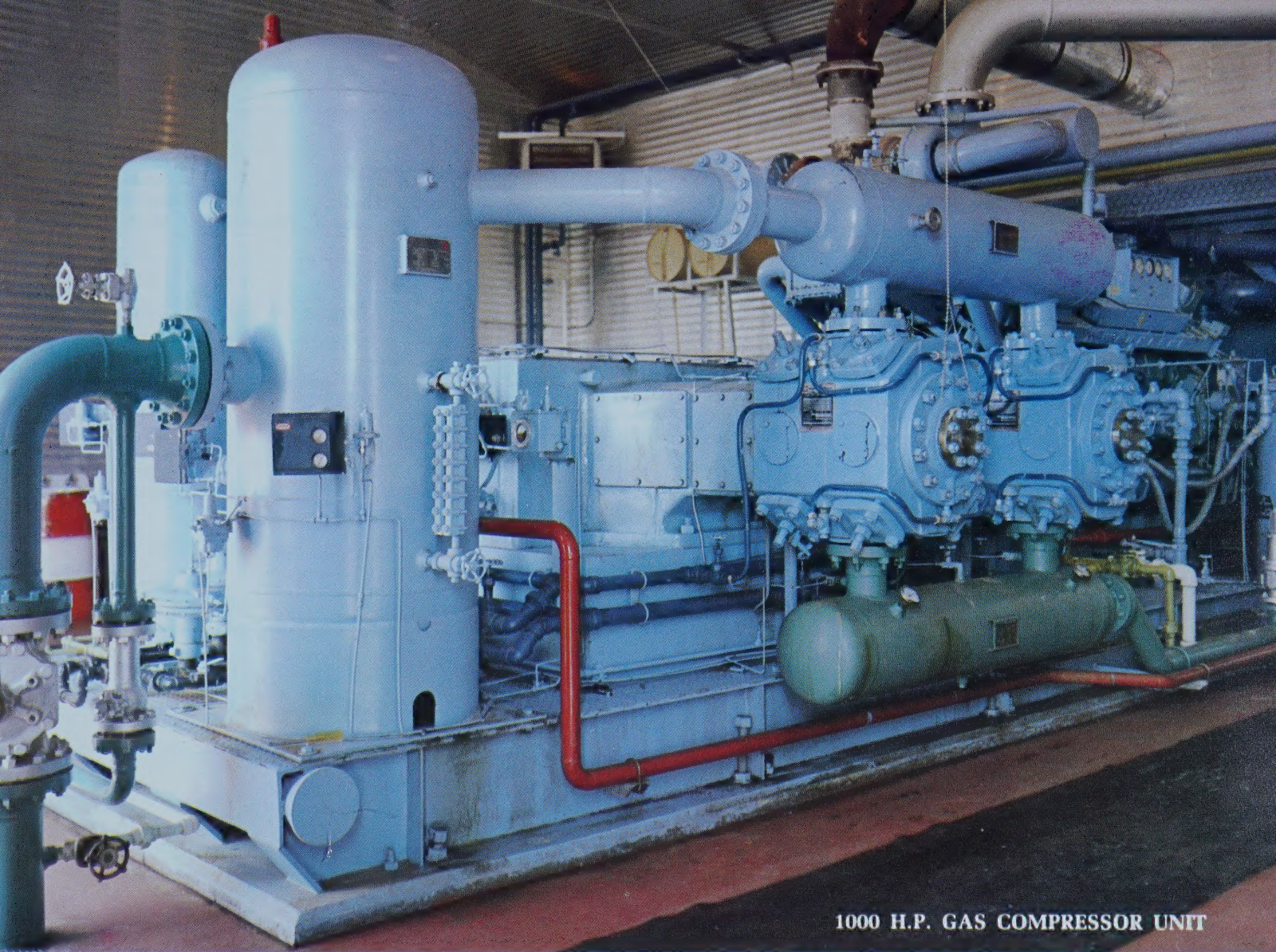
Producing Properties

## INDEX MAP



MERLAND EXPLORATIONS LIMITED  
CALGARY — ALBERTA





1000 H.P. GAS COMPRESSOR UNIT

## EXPLORATION, DRILLING AND PRODUCTION

During 1974 the Company participated in the drilling of 86 wells resulting in 7 oil and 68 gas completions. Of these 35 were in the category of exploration and the balance, development drilling. In addition 95 producing gas wells were purchased as noted earlier in this report.

Exploration was confined to Alberta and 9 discovery wells have added substantial reserves and development opportunities at North Big Bend, Halkirk, South Alderson, Taber and Red Coulee. Reference maps on succeeding pages outline some of these areas of interest. Expenditures on exploration amounted to \$919,000 for the year.

Major expansions at Bantry and Medicine Hat, Alberta, and Horsham, Saskatchewan, were completed. A total of \$4,837,000 was expended for development drilling and new facilities. The Company now operates three gas plants having 6,000 combined horsepower and production capa-

bilities in excess of 30 MMCFD. In addition Merland has substantial interests in gas plants operated by others.

Budgets for 1975 provide for increased daily production rates through drilling at Bantry and Medicine Hat, Alberta, and Horsham, Saskatchewan and for development of new gas production at South Alderson, Halkirk, Hilda, Westlock and North Medicine Hat. In addition, Merland as operator has commenced development drilling and waterflood projects at Red Coulee and Taber, Alberta, which is expected to expand oil production to approximately 1,600 barrels per day with Merland's share approaching 300 barrels per day by year-end.

Thirty wells in the 1975 program have already been drilled with the balance, 15 exploration and 105 development wells, scheduled for completion by November 1 of this year.



## 1975 — DRILLING FORECAST

Exploratory	Production	Total
20	130	150

Fifty of these wells will be drilled by other operators. Thirty were drilled and 28 completed by Merland as gas producers by March 1975 and of the total 1975 program 20 development wells are for oil and the balance gas.

### PRODUCTION

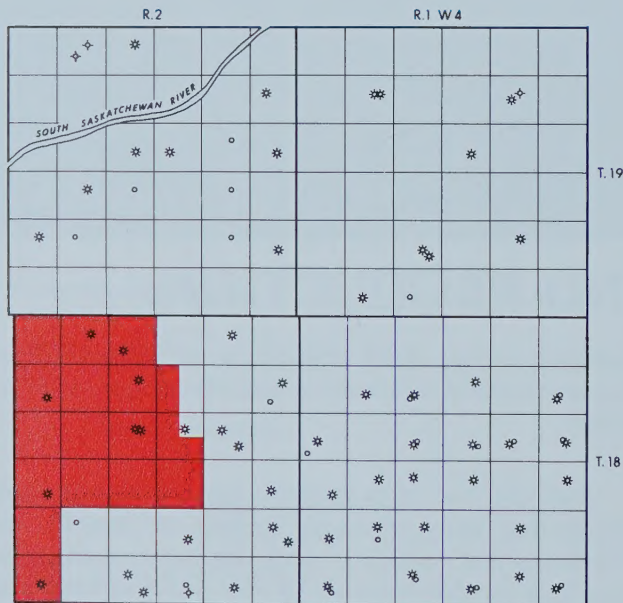
	MMCFD	BPD
	Gas	Oil
1972	.03	—
1973	4.4	—
1974	15.1	20
Forecast 1975	25	100
1976	35	300

## DRILLING

### WORKING INTEREST WELLS

	Explor- ation	Produc- tion	Abandoned	Total Completed Wells
1971	7	—	2	5
1972	13	10	1	22
1973	76	202	35	243
1974	35	135	11*	159
	<u>131</u>	<u>347</u>	<u>49</u>	<u>429</u>
				8 Oil
				421 Gas
				<u>429</u>

Note: Includes acquisitions  
\* 5 sold, 6 abandoned



MERLAND EXPLORATIONS LIMITED  
CALGARY — ALBERTA  
WEST HILDA AREA

ACREAGE:  
GROSS 10400  
NET 2600

MERLAND 25% W.I.

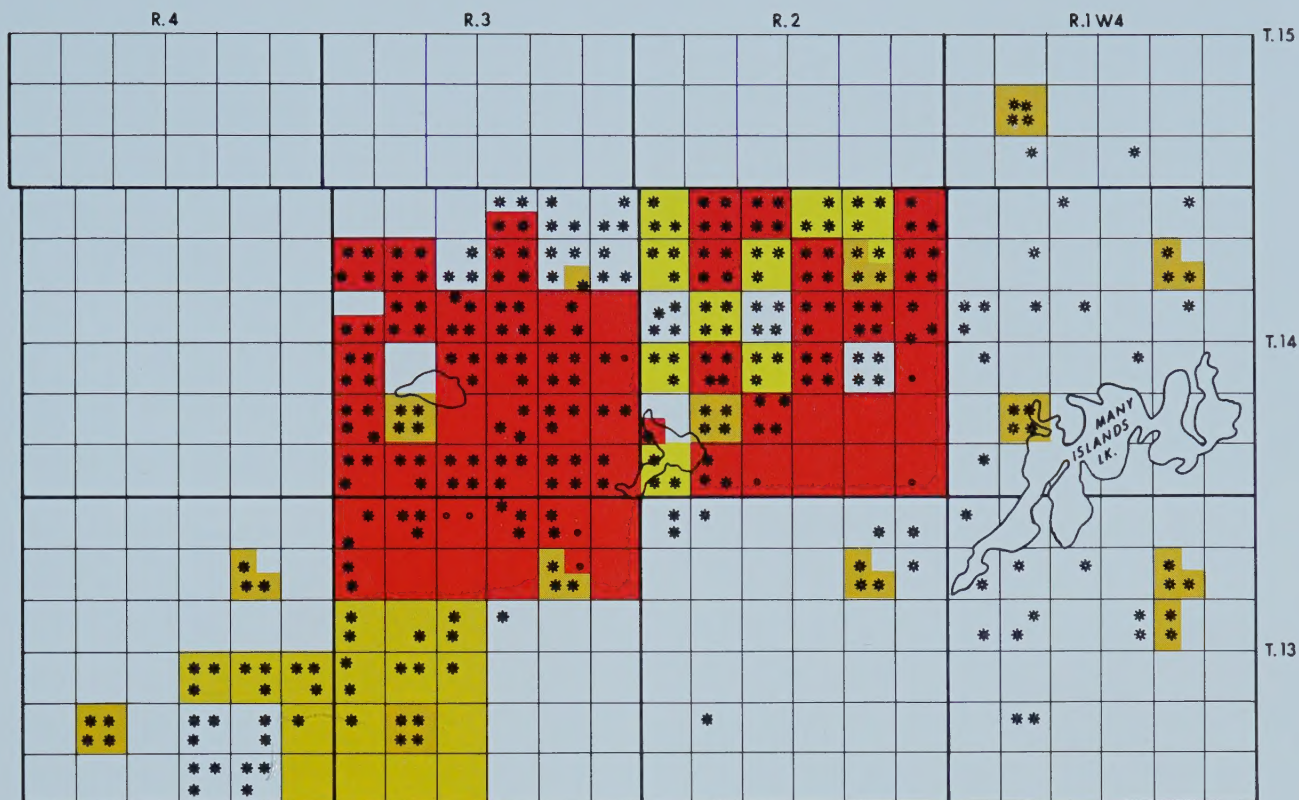
SCALE: MILES  
1 0 1 2

APRIL 1975

### West Hilda

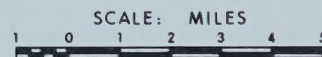
Merland has participated in three successful Milk River wells and will combine with the operator, Unotex Petroleum Corporation, to drill 30 wells, install compression and gathering facilities to produce 6 MMCFD in the fall of 1975.





MERLAND EXPLORATIONS LIMITED  
CALGARY — ALBERTA  
**MEDICINE HAT AREA**

ACREAGE:  
GROSS NET  
59840 49152



APRIL 1975

## Medicine Hat

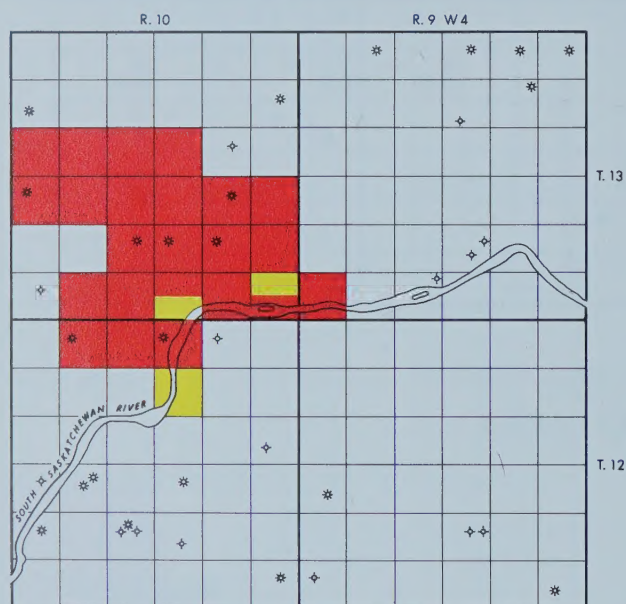
With the acquisition of 95 producing wells and a 55% interest in a 3000 H.P. compressor station known as Vale, the combined production and gathering facilities encompass nearly three townships

and have production capabilities of 22 MMCFD. Forty-five wells are to be drilled on these properties during 1975 mainly in the Milk River, Medicine Hat and White Specks horizons.





COATED LINE PIPE FOR GAS GATHERING



MERLAND EXPLORATIONS LIMITED  
CALGARY — ALBERTA

### SOUTH ALDERSON

ACREAGE:  
GROSS 14759  
NET 7379.5

CROWN  
FREEHOLD



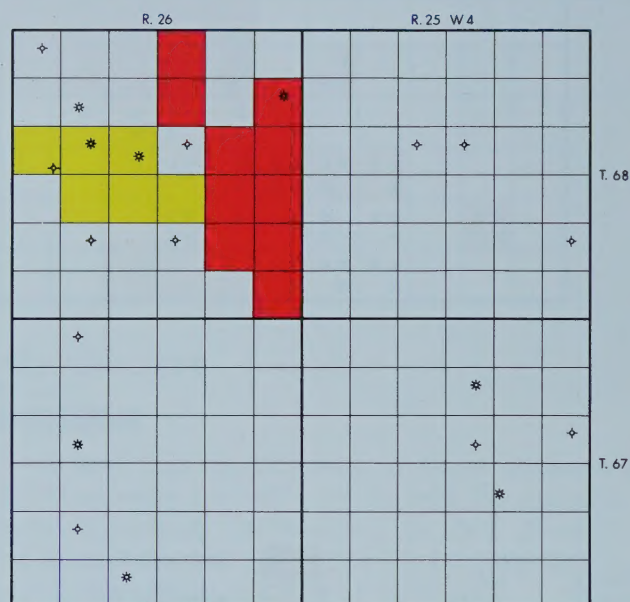
MERLAND 50%

SCALE: MILES  
0 1 2

APRIL 1975

### South Alderson

This property located west of Medicine Hat has seven exploratory wells which tested the Milk River, Medicine Hat, White Specks and Viking gas zones and were completed as producers. Sufficient data is now available to warrant a ten well drilling program designed to produce 3 MMCFD commencing in September 1975. Limited pipeline facilities and compression facilities will be installed.



MERLAND EXPLORATIONS LIMITED  
CALGARY — ALBERTA

### NORTH BIG BEND AREA

ACREAGE:  
GROSS 9600  
NET 3072



MERLAND 40% W.I.  
MERLAND 20% W.I.

SCALE: MILES  
0 1 2

APRIL 1975

### North Big Bend

As a result of seismic and a five well exploratory drilling program by Merland and others, sufficient reserves have now been proven to warrant the installation of a gathering system for delivery of 3 MMCFD to a utility pipeline in January 1976. There are three producing zones in the Blairmore sands.





ENDLESS TUBING UNIT FOR SERVICING GAS WELLS

## Auditors' Report

We have examined the consolidated balance sheet of Merland Explorations Limited and subsidiaries as of December 31, 1974 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its subsidiaries as of December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
April 18, 1975

PEAT, MARWICK, MITCHELL & CO.  
Chartered Accountants.



# MERLAND EXPLORATIONS LIMITED

## AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET

December 31, 1974

(with comparative figures for 1973)

Assets	<u>1974</u>	<u>1973</u>
CURRENT ASSETS:		
Cash .....	\$ 72,710	753,870
Accounts receivable .....	1,816,289	1,645,586
Inventory of materials and supplies, at cost .....	270,302	193,847
Prepaid expenses and other .....	79,135	71,477
Total current assets .....	<u>2,238,436</u>	<u>2,664,780</u>
INVESTMENTS:		
Shares of other companies, at cost .....	50,000	50,000
Mortgage receivable .....	100,000	—
	<u>150,000</u>	<u>50,000</u>
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Petroleum and natural gas interests ....	9,132,809	5,445,804
Less accumulated depletion .....	(336,761)	(141,209)
Production equipment, gas plants and facilities .....	3,925,402	2,187,154
Other .....	—	258,834
Less accumulated depreciation .....	(220,656)	(222,928)
	<u>12,500,794</u>	<u>7,527,655</u>
OTHER ASSETS:		
Debenture issue costs, less amortization .....	67,221	74,905
Organization and share issue expense .....	134,819	134,819
	<u>202,040</u>	<u>209,724</u>
	<u>\$15,091,270</u>	<u>10,452,159</u>

See accompanying notes to consolidated financial statements.



Liabilities	<u>1974</u>	<u>1973</u>
CURRENT LIABILITIES:		
Accounts payable and accrued expenses .....	\$ 2,619,770	1,704,276
Debenture interest payable (Note 2) ....	175,000	42,192
Notes payable, non-interest bearing ....	150,000	—
Current portion of long-term debt (Note 2) .....	1,322,700	810,000
Income taxes payable .....	—	15,851
Total current liabilities .....	<u>4,267,470</u>	<u>2,572,319</u>
PREPAYMENTS ON FUTURE NATURAL GAS DELIVERIES .....	163,590	—
LONG-TERM DEBT (Note 2) .....	8,177,300	5,643,200
DEFERRED INCOME TAXES .....	432,650	295,300
SHAREHOLDERS' EQUITY:		
Capital stock (Note 4):		
Authorized - 7,500,000 shares without nominal or par value. Issued and fully paid - 4,642,500 shares .....	3,039,532	3,039,532
Deficit (Note 2) .....	<u>(989,272)</u>	<u>(1,098,192)</u>
	2,050,260	1,941,340
On behalf of the Board:		
<u>GEORGE T. SMITH,</u> Director		
<u>WILMOT L. MATTHEWS,</u> Director		
	<u>\$15,091,270</u>	<u>10,452,159</u>



# MERLAND EXPLORATIONS LIMITED

AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

Year ended December 31, 1974

(with comparative figures for 1973)

	<u>1974</u>	<u>1973</u>
REVENUE:		
Oil and natural gas (net of royalties 1974 - \$324,899; 1973 - \$58,926) .....	\$ 976,463	188,927
Gain on sale of petroleum and natural gas interests .....	757,190	—
Parquet Flooring division .....	269,542	487,210
Interest and other .....	76,731	42,675
	<u>\$ 2,079,926</u>	<u>718,812</u>
EARNINGS FROM OPERATIONS BEFORE THE UNDERNOTED ITEMS .....	\$ 1,124,909	147,819
Depreciation and depletion .....	337,637	121,708
Abandonment and surrender of properties .....	60,571	101,486
Interest on long-term debt .....	587,247	115,726
	<u>985,455</u>	<u>338,920</u>
<b>Earnings [loss] from operations</b> .....	139,454	(191,101)
OTHER INCOME:		
Gain on sale of investments - net .....	—	126,796
<b>Earnings [loss] before income taxes</b> .....	139,454	(64,305)
INCOME TAXES (Note 3) .....	98,568	(9,150)
<b>Earnings [loss] before extraordinary item</b> .....	40,866	(55,155)
EXTRAORDINARY ITEM - NET OF INCOME TAXES (Note 6) .....	68,034	—
<b>Net earnings [loss] for the year</b> .....	108,920	(55,155)
Deficit, beginning of year .....	(1,098,192)	(1,043,037)
Deficit, end of year .....	<u>\$ (989,272)</u>	<u>(1,098,192)</u>
EARNINGS (LOSS) PER SHARE (Note 5):		
Earnings (loss) before extraordinary item .....	\$ .009	(.013)
Net earnings (loss) for the year .....	<u>\$ .023</u>	<u>(.013)</u>

See accompanying notes to consolidated financial statements.



# MERLAND EXPLORATIONS LIMITED

## AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1974

(with comparative figures for 1973)

	<u>1974</u>	<u>1973</u>
SOURCES OF WORKING CAPITAL:		
Working capital provided by operations .....	\$ 582,328	184,988
Sale of property, plant and equipment .....	454,976	4,134
Long-term bank loans .....	2,534,100	2,781,400
Prepayment on future natural gas deliveries .....	163,590	—
Issue of debentures .....	—	2,500,000
Issue of share capital .....	—	1,090,625
Sale of investments .....	—	36,000
Deferred income taxes acquired on purchase of subsidiary companies .....	—	289,050
Reduction of non-current portion of mortgage receivable .....	—	90,732
	<u>3,734,994</u>	<u>6,976,929</u>
USES OF WORKING CAPITAL:		
Mortgage receivable .....	100,000	—
Additions to property, plant and equipment .....	5,756,489	7,039,272
Decrease in accounts payable excluded from current liabilities .....	—	25,000
Expenses incurred on issue of share capital and debentures .....	—	123,551
Other .....	—	659
	<u>5,856,489</u>	<u>7,188,482</u>
Decrease in working capital .....	2,121,495	211,553
Working capital, beginning of year .....	92,461	304,014
Working capital (deficiency), end of year .....	<u>\$ (2,029,034)</u>	<u>92,461</u>

See accompanying notes to consolidated financial statements.



# MERLAND EXPLORATIONS LIMITED

## AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1974

#### 1. Accounting policies:

##### (a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

The excess of the unamortized cost of purchased subsidiaries over their related net asset values at the date of acquisition amounts to \$890,466 at December 31, 1974 (\$932,106 - 1973) and is included in petroleum and natural gas interests.

##### (b) Petroleum and natural gas interests:

The costs of acquiring interests in proven and unproven petroleum and natural gas properties, and the related costs of development, including interest, are capitalized on an area basis. Depletion and depreciation are provided on property costs, including costs of development of productive wells, on the unit of production method based on the related proven reserves of petroleum and natural gas as estimated by independent or employee engineers. The costs of non-productive areas are charged to expense when properties are abandoned or surrendered.

##### (c) Income taxes:

The companies follow the tax allocation method of accounting for all timing differences between taxable income and recorded income. Under this method, provisions for deferred income taxes are made on the excess of deductions for income tax purposes over the related depletion, depreciation and other charges recorded in the accounts.

#### 2. Long-term debt:

	<u>1974</u>	<u>1973</u>
Bank loans .....	\$7,000,000	3,953,200
7% convertible income debentures, Series A, due October 1, 1983 .....	2,500,000	2,500,000
	<u>9,500,000</u>	<u>6,453,200</u>
Less bank loans due within one year, included in current liabilities .....	1,322,700	810,000
	<u>\$8,177,300</u>	<u>5,643,200</u>

The bank loans, which bear interest at 1% to 1½% above bank prime rates, are secured by a general assignment of accounts receivable and an assignment of certain of the companies' interest in petroleum and natural gas properties.

The 7% convertible income debentures were issued on October 4, 1973 pursuant to a Trust Indenture. The Trust Indenture provides that under certain circumstances:

- (i) Payment of interest may be deferred.
- (ii) The debentures may be converted into capital stock of the Company as set out in Note 4.
- (iii) The debentures may be redeemed at the option of the Company at specified premiums.

The Company has agreed to establish a sinking fund for annual payments to the Trustee commencing in 1979 of an amount sufficient to retire \$500,000 principal amount of debentures in each of the years 1979 to 1982.



# MERLAND EXPLORATIONS LIMITED

## AND SUBSIDIARIES

The debentures are not secured by any charge against the assets of the Company. Various covenants of the Trust Indenture restrict the Company in regard to declaration of dividends and the creation of any charge against the Company's assets.

### 3. Income taxes:

Responding to the recent amendments to the Income Tax Act (Canada), some provinces are proposing to make rebates or grants in order to provide some measure of relief to resource companies from the additional Federal tax levies. Although the provincial legislation has not yet been enacted, and some of the proposals have not yet been set out in sufficient detail to remove doubt as to their ultimate effect, the 1974 income tax provision in the accompanying financial statements has been estimated on the basis of taking the proposed provincial changes into account on the best information available, which has had the effect of decreasing the 1974 income tax provision by approximately \$42,000.

No deduction is allowed under the provision of the Income Tax Act for interest expense related to the 7% convertible income debentures in the amount of \$175,000.

Income taxes are comprised of the following:

	<u>1974</u>	<u>1973</u>
Currently payable by a subsidiary .....	\$ 2,500	6,800
Deferred .....	<u>96,068</u>	<u>(15,950)</u>
	<u>\$98,568</u>	<u>(9,150)</u>

### 4. Capital stock:

At December 31, 1974, 230,000 shares were reserved for the exercise of options granted to key employees, exercisable to December 31, 1976 at \$1.25 per share.

The 7% convertible income debentures are convertible until September 30, 1977 into the capital stock of the Company at \$2.78 per share. Accordingly, 900,000 shares have been reserved for the conversion of these debentures. Subsequent to September 30, 1977 and until September 30, 1983 the debentures are convertible at \$4.00 per share.

### 5. Earnings [loss] per share:

Fully diluted earnings (loss) per share have not been presented as the effect of exercising the outstanding options and conversion privileges would be anti-dilutive.

### 6. Extraordinary item:

During the year the Parquet Flooring division operations were closed and the fixed assets sold.

### 7. Statutory information:

The Company has nine directors and six officers, four of whom are directors. During the year ended December 31, 1974 the aggregate remuneration paid to officers for their services was \$71,239. No remuneration was paid to directors for their services as directors. During the year the Company was charged a management fee which included charges for the services of certain officers.



# MERLAND EXPLORATIONS LIMITED

## **DIRECTORS:**

Robert Law, Q.C.	Toronto, Ontario
Brian D. Marshall	Toronto, Ontario
William T. Mason	Freelton, Ontario
Wilmot L. Matthews	Toronto, Ontario
Peter M. Oley, P.Eng.	Calgary, Alberta
William O. Parlee, Q.C.	Edmonton, Alberta
George T. Smith, B.A.Sc.	Toronto, Ontario
John E. Stobart, P.Eng.	Calgary, Alberta
Donald R. Watt	Toronto, Ontario

## **OFFICERS:**

Peter M. Oley, P.Eng. President	Calgary, Alberta
Patrick H. Belliveau, P.Eng. Vice President	Calgary, Alberta
Robert Law, Q.C. Secretary-Treasurer	Toronto, Ontario

## **SENIOR MANAGEMENT:**

E. L. Richardson, Controller	Calgary, Alberta
Norman T. Wudel, Land Manager	Calgary, Alberta

## **EXECUTIVE OFFICE:**

402 Fina Building, 736-8 Avenue S.W., Calgary, Alberta

## **AUDITORS:**

Peat, Marwick, Mitchell & Co.	Calgary, Alberta
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## **REGISTRAR AND TRANSFER AGENT:**

Guaranty Trust Company of Canada	Calgary, Alberta
	Toronto, Ontario
	Vancouver, B.C.

## **BANKERS:**

The Royal Bank of Canada	Calgary, Alberta
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## **STOCK LISTING:**

The Toronto Stock Exchange









AR50

In addition to the financial information contained in the accompanying statements of Source and Application of Funds and of Profit and Loss and Deficit, we submit the following Interim Report to the shareholders of Merland Explorations Limited.

Merland now holds a major interest in 11 oil and 270 gas wells, located mainly in South East Alberta. Thirty of these wells, which were completed as producers, are not on production but will form part of development programmes planned for 1975. During the balance of this year the Company will participate in the drilling of 20 wildcat wells and at least 50 more development wells. While casing and oil field equipment are presently in short supply, it is expected that the Company's drilling and production targets will be met with only a four to six week time delay. The Company is the operator for 90% of the forecast production and has a well trained field staff located at gas plants in the general Brooks-Medicine Hat area.

Gas production will increase from the first half average of 13 million cubic feet per day to a level of 30-35 million cubic feet per day by the end of this year. A number of price escalations in gas marketing contracts will add substantial new income during 1974 and 1975 and the Company feels that it can achieve the 1975 cash flow as projected in the annual report. Capital expenditures for 1974 will exceed 3.5 million dollars and the Company has succeeded in holding costs to its budget figures. Inflation, drilling and production cost increases and high bank interest rates have made it difficult for everyone engaged in this industry to make accurate forecasts and while there is still some uncertainty over the division of royalties and taxes as between Federal and Provincial governments, oil/gas price adjustments would appear to be adequate to offset unforeseen costs.

Bank lines of credit have been expanded beyond our current needs and loans which are currently at 4 million dollars will approach the 7 million dollar level by year end. The Company feels that its revenue and lines of credit are adequate to support the 1974 expenditures and finance programmes of 3 to 4 million dollars in 1975, without resorting to other sources of financing.

The Company's highly successful emphasis on oil and gas activities over the past two years has resulted in a decision to phase out the non-petroleum operations. This programme is now nearing completion. The Parquet Flooring Division is being closed and recoveries are expected to exceed book value. The small interest held in the Chibougamau property with Yorbeau Mines Inc. will be sold to Campbell Chibougamau Mines Ltd. at a figure slightly below cost. All other mining properties have been written down to no book value for the attached statements.

Merland has enlarged its technical and administrative staff at the Executive Offices in Calgary and has now completed plans to move into new quarters on 1 September. The new address will be 402 Fina Building, 736-8 Avenue S.W., Calgary, telephone number (403) 269-2511.

In conjunction with the transfer of the Company's executive offices to Calgary and as his services are now available on a full time basis in Calgary, John A. Cameron has been elected President of the Company. In addition, Peter M. Oley has been appointed Vice President and General Manager of the Company and Patrick H. Belliveau Vice President and Manager of Operations. George T. Smith, who in addition to his duties as President of Camflo Mines Ltd. and other positions, has served as President of the Company since 1972 will continue as a member of the Board of Directors. On behalf of the shareholders of the Company, the Directors wish to express their appreciation to Mr. Smith for his valuable contribution to the growth and success of the Company.

August 22, 1974.

Board of Directors.

Printed in Canada

Merland  
Explorations  
Limited

Interim Report

SIX MONTHS ENDED

JUNE 30th, 1974



# Merland Explorations Limited

AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six Months Ended June 30, 1974  
With Comparative Figures for 1973  
(Unaudited)

Funds provided:	1974	1973
Operations:		
Net profit	\$ 103,567	\$ 118,950
Add charges not involving funds:		
Depreciation and amortization	148,232	9,797
Project exploration expenses written off	58,725	267
Deferred income taxes	141,800	—
	<u>\$ 348,757</u>	<u>\$ 10,064</u>
Funds provided by operations	\$ 452,324	\$ 129,014
Reduction of long-term portion of mortgage	\$ —	\$ 2,735
Increase in long-term portion of bank loans	—	55,600
Proceeds from sale of fixed assets	9,379	—
Proceeds from issue of share capital	—	35,625
Proceeds from sale of investment in oil company	—	36,000
	<u>\$ 9,379</u>	<u>\$ 129,960</u>
Total funds provided	<u>\$ 461,703</u>	<u>\$ 258,974</u>
Funds used:		
Reduction in non-current bank advances and accounts payable	\$ —	\$ 25,000
Purchase of fixed assets	—	2,474
Project exploration expenses, net of amounts recovered	1,001,914	499,971
Investment in option purchase and investigation	—	38,529
Expenses on issue of shares	—	736
Reduction in long-term portion of bank loan	150,335	—
Total funds used	<u>\$1,152,249</u>	<u>\$ 566,710</u>
Net increase (decrease) in working capital	<u>\$ (690,546)</u>	<u>\$ (307,736)</u>
Working capital, beginning of year	\$ 92,461	\$ 304,014
Working capital, end of period (Note 1)	<u>(598,085)</u>	<u>(3,722)</u>
Net increase (decrease) in working capital	<u>\$ (690,546)</u>	<u>\$ (307,736)</u>

NOTE 1: The Company had unused bank lines of credit of approximately \$3,000,000 as at June 30, 1974.

# Merland Explorations Limited

AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND DEFICIT

Six Months Ended June 30, 1974  
With Comparative Figures for 1973  
(Unaudited)

Revenue:	1974	1973
Oil and natural gas sales	\$ 355,321	\$ 31,722
Gain on sale of interest in projects—net (note 2)	630,082	—
Parquet Flooring division	167,963	253,869
Interest	32,187	4,051
	<u>\$1,185,553</u>	<u>\$ 289,642</u>
Net profit (loss) from operations before the undernoted items	\$ 744,333	\$ (1,107)
Depreciation and amortization	144,388	9,797
Project exploration expenses written off	58,725	267
Interest		
— bank	201,309	21,908
— debentures (including amortization of expenses of \$3,844)	91,344	—
	<u>495,766</u>	<u>31,972</u>
Net profit (loss) from operations	248,567	(33,079)
Other Income:		
Profit on sale of securities	—	154,181
Other	—	881
		<u>155,062</u>
Net profit before income taxes	248,567	121,983
Income taxes — current	3,200	3,033
— deferred	141,800	—
	<u>145,000</u>	<u>3,033</u>
Net profit	103,567	118,950
Deficit, beginning of period	(1,098,192)	(1,020,837)
Deficit, end of period	<u>\$ (994,625)</u>	<u>\$ (901,887)</u>
Earnings per share	<u>\$ .02</u>	<u>\$ .03</u>
Cash flow per share	<u>\$ .10</u>	<u>\$ .03</u>

Note 2: The Company sold its interest in the producing Jarrow unit for \$890,000 cash with a further \$120,000 receivable if the purchaser's revenues increase to certain specified levels due to increased prices. This statement reflects a selling price of \$890,000.